

FEB 14 1990

**STATEMENT OF
THE DEPUTY SECRETARY OF DEFENSE
DONALD J. ATWOOD**

**BEFORE THE
SENATE APPROPRIATIONS
DEFENSE SUBCOMMITTEE**

**IN CONNECTION WITH THE
FY 1991 BUDGET
FOR THE DEPARTMENT OF DEFENSE**

FEBRUARY 20, 1990

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Mr. Chairman, Members of the Committee:

I appreciate the opportunity to come before this Committee to provide the details of the Administration's defense budget for FY 1991. In the nine months since I last appeared before this Committee to discuss our nation's defense requirements, an historic transformation has occurred in the global security environment. The widespread political change in Eastern Europe and in the Soviet Union have greatly improved the prospects for a lasting peace in the world. The challenge we face together is to preserve America's security, while taking account of and supporting that transformation.

Today, I will focus on the budget and management decisions we have made to meet that challenge. However, before doing that, I will address briefly how the changing global environment has affected our security strategy, underscoring the comments Secretary Cheney has made during his 5 appearances before the Congress.

ADAPTING U.S. DEFENSE STRATEGY TO GLOBAL CHANGES

There is no doubt that the events in Eastern Europe and the Soviet Union itself have had an impact on our overall national defense strategy. The East European forces are no longer a significant factor in a premeditated Soviet attack on Western Europe and the Soviets themselves are clearly focused on internal problems. However, the volatility and unpredictability of the situation have made the future course of events uncertain. And, while we expect the Soviets to continue reducing their force levels, we should not expect the Soviet Union to neglect significantly the only national instrument that makes it a superpower: its substantial nuclear and conventional forces. In fact, their nuclear arsenal is undergoing considerable modernization and they still are working to enhance the overall effectiveness of all their forces. Also, because of its centralized authority, the Soviet Union could reverse its military course quickly and decisively.

In addition, we must not forget that the United States has security concerns other than the Soviet Union that are becoming more complex. Hostile and unstable Third World nations and terrorist organizations now have ready access to high technology weapons that pose a very real threat to our friends-- and indeed our own-- national interests. Chemical and biological weapons, nuclear weapons, and ballistic missiles to deliver these deadly weapons are becoming readily available. We also

Base Closures and Realignment Act. Over the FY 1990-FY 1995 time frame, the net savings due to base closures are estimated at \$1.2 billion. This consists of one-time implementation costs of \$3.4 billion, which are offset by \$4.6 billion of cost avoidances, savings, and revenues from anticipated land sales. After FY 1995, annual savings are estimated to be \$700 million.

In addition, the Military Departments were requested to select other facility candidates for closure and realignment, which would reduce and relocate functions and personnel positions. The list of candidates, including both domestic and foreign bases, has been provided to the Congress.

DEFENSE MANAGEMENT REPORT

The cornerstone of a more efficient defense program that is higher in quality will be the Defense Management Report (DMR) and the costs savings initiatives it contains. The Report's major thrust is to act on problems, not restudy them. It stresses integrity, long-range planning, better communications DoD-wide, strict accountability of managers for results, teamwork, and innovation. The Report sets targets for management improvement, accompanied by substantial dollar savings. The first major installment of this effort is reflected in actions taken to reduce management costs in the FY 1991 budget. We have identified initiatives that will save about \$2.3 billion in FY 1991 and reduce civilian employment by approximately 7,800 and also cut military strength by about 8,600. Over a 5-year period, we think the cumulative savings resulting from all these initiatives will be close to \$39 billion, with corresponding reductions of 18,300 civilians and 24,600 military. (Chart 17)

Major savings will be made in the following areas:

- Logistics. The efficiency and effectiveness in the way we buy and manage our supplies will be improved by better controlling the costs of supplies, repairable items, clothing, and the cost of transportation. Funding the operational costs of material management will be moved to the Stock Funds to allow greater visibility of the actual cost of operation and allow managers greater flexibility in making decisions. Policies regarding multiyear contracting, storage location, and clothing and textiles inventory management will be changed to improve the way we buy and manage. Also, the Military Departments are planning to restructure their logistical commands and depots, thereby making substantial savings in personnel and operating costs.

- Administration. Streamlining headquarters operations and other related efficiencies will lead to reductions in staff augmentation. The Departments will cut back on headquarters staffs, reduce travel, and streamline overhead functions at

various activities. Defense Agencies and the Office of the Secretary of Defense will also streamline their operations.

- Management Information Systems. We have made a strong commitment to improve the way we collect, use, and manage information that supports our business operations. Improvements will be made in the standardization, quality, and consistency of data from multiple management information systems. In addition, we are committed to adopting single systems in each major functional management area. Although the savings are small in the first year due to the need for initial investment, we believe the Department can save over \$4.3 billion in the long-term through reducing ADP development costs and by eliminating multiple development efforts aimed at satisfying the same or similar requirements.

- Finance, Procurement, and Contract Management. We also plan to improve our financial operations, procurement, and contract administration. The major savings in FY 1991 will result from a reduction in the use of consultants, outside advisors, and other contractually-arranged assistance. But of equal significance for future operations will be the establishment of consolidated contract management and the development of stronger controls over government-owned material furnished to contractors. Also, the Navy will begin aggregating ship procurements into larger yearly lots, without increasing the total planned buy, in order to gain economies of scale in procurement of materials.

- Consolidations. We have directed the study of a number of DoD functions in order to develop plans for potential consolidations or other management efficiencies. These functions include supply depots, inventory control points, maintenance depots, accounting and finance centers, ADP design and operations centers, and R&D labs and test facilities.

The Department is also pursuing aggressively a variety of other initiatives independent of budget issues.

- Enhancing weapon system program performance. We are creating a dedicated corps of acquisition specialists in each of the Military Departments. We also are pushing authority and responsibility down a significantly streamlined program management chain to increase discipline in the acquisition system. This will increase accountability of program managers and produce a simplified acquisition system that is run by well-trained, dedicated professionals who are able to do their job with a minimum of bureaucratic interference.

- Reinvigorating the planning and budgeting process. We are performing continuous systematic reviews of fundamental issues in our planning and budgeting process within the context of dynamic global affairs. In this way our comprehensive

DMR SAVINGS IN THE FY 1991 DoD BUDGET

(Dollars in Millions)

<u>CATEGORY</u>	<u>FY 1991</u>	<u>TOTAL FY 1991-1995</u>
Logistics/Acquisition	1,450	21,000
Administration	300	3,700
Civilian Substitution	20	500
Automated Support & Information Systems	30	4,300
Finance, Procurement & Contract Management	200	3,900
Consolidation Studies	300	5,600
TOTAL SAVINGS	2,300	39,000
<u>MANPOWER</u>		
Civilians	7,800	18,300
Military	8,600	24,600

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Defense Management Initiative

Issue: Develop Standard Automated Data Processing Systems

Scope: DoD-Wide

Budget Summary:

(Dollars in Millions)

<u>SERVICE/AGENCY</u>	<u>Savings FY 1991</u>	<u>Savings FY 92-95</u>	<u>Total Svgs</u>
Army (O&M)	67.3	630.4	697.7
Navy (O&M)	71.8	722.3	794.1
Marine Corps (O&M)	7.0	78.7	85.7
Air Force (O&M)	62.1	518.4	580.5
Defense Agencies (O&M)	5.6	45.4	51.0
Army Reserve (O&M)	1.0	30.6	31.6
Navy Reserve (O&M)	0.0	13.6	13.6
Marine Corps Reserve (O&M)	0.0	0.0	0.0
Air Force Reserve (O&M)	0.4	4.5	4.9
Army National Guard (O&M)	5.1	25.1	30.2
Air National Guard (O&M)	1.9	21.2	23.1
Total (O&M)	<u>222.2</u>	<u>2,090.2</u>	<u>2,312.4</u>
 Army (Proc)	 16.0	 338.6	 354.6
Navy (Proc)	20.7	275.0	295.7
Marine Corps (Proc)	0.5	5.6	6.1
Air Force (Proc)	0.0	180.7	180.7
Defense Agencies (Proc)	5.8	47.4	53.2
Total (Proc)	<u>43.0</u>	<u>847.3</u>	<u>890.3</u>

Army (RDT&E)	10.6	93.3	103.9
Navy (RDT&E)	0.0	13.8	13.8
Marine Corps (RDT&E)	0.0	0.0	0.0
Air Force (RDT&E)	8.6	96.2	104.8
Defense Agencies (RDT&E)	<u>3.7</u>	<u>32.2</u>	<u>35.9</u>
Total (RDT&E)	22.9	235.5	258.4
 Navy (Mil Con)	 0.0	 8.9	 8.9
 Gross Savings	 288.1	 3,181.9	 3470.0
Less Investment:			
Central Fund (O&M)	(50.0)	(932.0)	(982.0)
Central Fund (Proc)	<u>(50.0)</u>	<u>(260.0)</u>	<u>(310.0)</u>
 Net Savings	 188.1	 1,989.9	 2,178.0

Initiative Description: The Deputy Secretary of Defense established a DOD Corporate Information Management initiative in October, 1989. The program goals echo the ideas expressed in the Defense Management Review, initiated by the Secretary of Defense. The objectives of the program are: to identify and implement management efficiencies throughout the information systems life cycle, to eliminate duplication of effort in the development and maintenance of multiple information systems designed to meet a single functional requirement, and to ensure information systems support policy directions. More specifically, this effort will ensure the standardization, quality, and consistency of data from DoD's multiple management information systems and will determine standard functional requirements for meeting DOD's management information systems needs.

The program is being implemented through two types of groups. The first is an executive-level group, consisting of industry and DoD leaders, who will recommend an overall approach and action plan for the DoD Corporate Information Management Program, evaluate current oversight practices, and review the procedures of the functional groups that will analyze the Department's various functional areas. This group will be constituted as a Federal Advisory Council and will report directly to Deputy Secretary Atwood.

The activities of the second group will represent a major change in DoD information planning processes. Information systems design and development will be based on overall DoD-wide requirements rather than on parochial requirements. The program will be implemented by multiple groups, established for specific functional areas. The groups will be comprised of key senior level policy, subject matter experts, and information systems experts in the Military Departments and Agencies, led by OSD officials. Their

mission will be to develop concepts for improving business practices, including possible revision of their area's business practices and policies, and increasing management efficiencies. These experts will then identify and develop standard functional requirements and data formats for their functional area, using a disciplined methodology --looking especially to eliminate redundancy, incompatibility, and other inefficiencies. Significant savings are anticipated as a result of eliminating the duplicative development of multiple systems for the same functional requirement as well as future savings resulting from maintaining fewer information systems.

Two pilot functional groups, warehousing and civilian payroll, were convened on December 11, 1989. During the next phase, which starts in March 1990, functional groups on financial management, civilian personnel, materiel management, and contract payment will be convened. Additional functional groups will be identified for the future.

The anticipated savings are offset by investment costs needed to design new systems and to procure related equipment. These funds are specifically identified in the budget as a separate line item in O&M and Procurement for the Corporate Information Management central fund.

Related DMR Initiatives:

In addition to the \$100 million shown above, several other initiatives have included funding in the Corporate Information Management central fund. The central fund includes \$80 million in FY 1991 to support potential system changes necessary for funding Army and Air Force reparables through the Stock Funds, rather than direct appropriations. The Navy Computer-aided Acquisition and Logistics Support initiative includes \$154 million in the central fund. The savings associated with these additional investments are described elsewhere in this package. The funds separately identified in the FY 1991 budget for the Corporate Information Management central fund totals \$334 million.

Defense Management Initiative

Issue: Computer Aided Logistics Support (CALS)

Scope: Navy

Budget Summary:

(Dollars in Millions)

<u>SERVICE/AGENCY</u>	<u>Savings FY 1991</u>	<u>Savings FY 92-95</u>	<u>Total Svgs</u>
Navy (O&M)	0.0	1,409.1	1,409.1
Central Fund (O&M), Investment	(59.0)	(4.0)	(63.0)
Net Total	(59.0)	1,405.1	1,346.1
Navy (O&M Reserve)	0.0	9.8	9.8
Navy (Other Proc)	0.0	497.6	497.6
Central Fund (Other Proc), Investment	(95.0)	(26.0)	(121.0)
Net Total	(95.0)	471.6	376.6
Navy (Aircraft Proc)	0.0	227.9	227.9
Navy (RDT&E)	0.0	25.0	25.0
Navy (SCN)	0.0	92.6	92.6
Navy (WPN)	0.0	87.1	87.1
Grand Total	(154.0)	2,319.1	2,165.1

Initiative Description: Computer Aided Logistics Support (CALS) will allow the Department to accept digitized logistics technical information from weapon system contractors, using OSD-accepted standards, in digitized electronic format rather than hard copy. CALS will support the technical information needs of the Department and develop a network system architecture for interoperability of existing/emerging stand-alone technical information databases currently used in DOD. The Navy has proposed ten separate initiatives of CALS that have the potential for improving the development, maintenance, and dissemination of logistics and design data, and have the potential for

wider utilization in DoD. Acceleration of ongoing programs will achieve significant savings compared to current funding levels. The Department believes that the additional investment in CALS in FY 1991 will achieve significant savings in FY 1992 - FY 1995. Funding for this effort has been placed in the Corporate Information Management (CIM) initiative to ensure prevention of duplication among other DoD Components.

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INSERT FOR THE RECORD

HOUSE	APPROPRIATIONS COMMITTEE	HOUSE	ARMED SERVICES COMMITTEE	HOUSE	OTHER Inouye
SENATE		SENATE		SENATE	
HEARING DATE Feb. 20, 1990		TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. 24	

Corporate Information Management

Question: Secretary Atwood, the estimates for Defense Management Report initiatives project gross savings of \$288 million in FY 1991 as a result of the Corporate Information Management system. Would you please enlighten the Committee with some specific examples of how DoD will achieve these savings.

Answer: The anticipated savings will be achieved by reducing or eliminating ADP-related modernization and development efforts that support the same functional requirements. The functional areas selected for review under the CIM initiative include: Civilian Payroll and Distribution which convened in December 1989; Financial Operations scheduled for March 1990; Materiel Management and Civilian Personnel now scheduled for April 1990; and Medical and Contract Payment planned for May 1990. Ultimately, all administrative areas in the DoD will undergo the CIM process.

CIM

INSERT FOR THE RECORD

HOUSE		APPROPRIATIONS COMMITTEE	HOUSE		ARMED SERVICES COMMITTEE	HOUSE		OTHER
SENATE			SENATE			SENATE		
HEARING DATE		TRANSCRIPT PAGE NO.		LINE NO.		INSERT NO.		
Feb. 20, 1990						26		

Corporate Information Management

Question: Secretary Atwood, you plan to consolidate the civilian payroll system in DoD. Does this mean that all civilian payroll systems in each of the services will be exactly the same? How will this differ from the current civilian payroll systems in each of the services?

Answer: Under the Corporate Information Management (CIM) initiative, a CIM functional group in Civilian Payroll was established in December 1989. There are currently 27 automated civilian payroll systems in the Department of Defense. The CIM Civilian Payroll functional group will develop concepts for improving business practices that may result in increased management efficiencies for the civilian payroll functional area. The functional group will identify and develop standard functional requirements and data formats for their areas using a disciplined methodology. Their product will be a set of standard functional requirements that will be used in developing a single standard information system to support the Civilian Payroll functional area DoD-wide.

INSERT FOR THE RECORD

HOUSE	APPROPRIATIONS COMMITTEE	HOUSE	ARMED SERVICES COMMITTEE	HOUSE	OTHER Inouye
SENATE		SENATE		SENATE	
HEARING DATE Feb. 20, 1990		TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. 30	

FY 91 "Savings" Associated with Corporate Information Management

Question: How will your office monitor these reductions to the O&M accounts to ensure they are taken from ADP activities and do not result in programmatic reductions of other readiness activities?

Answer: These reductions to the O&M accounts will be monitored through information technology budget exhibits. The DoD Comptroller has expanded these exhibits to reflect the portion required for continued operations, which includes maintenance, and the portion for development, which includes any action to modernize, enhance, expand, or add functions to existing systems or to acquire new systems.

Also, the DoD Comptroller is the Department's Senior Information Resources Management Official. In this capacity, the Comptroller chairs the Major Automated Information Systems Review Committee (MAISRC), which controls expenditures for major automated information system programs. Compliance with the standardization objectives of Corporate Information Management is one of the factors in obtaining MAISRC approval to continue expenditures for development of a major automated information system program.

INSERT FOR THE RECORD

HOUSE * SENATE	APPROPRIATIONS COMMITTEE	HOUSE SENATE	ARMED SERVICES COMMITTEE	HOUSE SENATE	OTHER Inouye
HEARING DATE Feb. 20, 1990		TRANSCRIPT PAGE NO.		LINE NO.	INSERT NO. 31

FY 91 "Savings" Associated With Corporate Information Management

Question: Mr. Atwood, how will your office overcome the interservice rivalries within the military departments to achieve the ADP consolidation savings you anticipate?

Answer: The basis of the Corporate Information Management initiative is a cooperative effort by all the Services and the other major DoD components working together to identify where multiple programs/efforts are attempting to solve the same or very similar problems in the functional areas under study. In this era of diminishing resources, it is in the best interests of the Components to work toward common solutions of common problems funded by DoD dollars so they can use the funds in their individual budgets to solve mission-related, high-priority Service/Component problems.

While each of the Corporate Information Management functional groups is led by an OSD functional policy official, the groups are largely made up of Service representatives who are experts in policy, operations, and systems supporting that functional area. Based on the increased focus of all the services on achieving increased management efficiencies and economies of scale, it is obvious that the Services are in a more cooperative frame of mind today than they have been in the past. We expect this increased awareness of the need for cooperation and maximizing the use of scarce resources to minimize interservice rivalries which might have a detrimental impact on achieving the anticipated savings.

INSERT FOR THE RECORD

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X SENATE		SENATE		SENATE	Inouye
HEARING DATE Feb. 20, 1990	TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. 23		

Corporate Information Management

Question: In light of DoD's ignominious record of computer system hardware and software development efforts in the past, why should Congress expect any different performance from DoD in this effort?

Answer: The Department of Defense established the Corporate Information Management initiative in October 1989 to assess key functional areas in both business and technical areas within the Department to improve business processes and reduce redundant information systems. The CIM effort will seek to eliminate unnecessary redundancy, to identify and implement management efficiencies throughout the information system life cycle, to develop common data requirements and formats and to eliminate redundant multiple information systems that support the same functional requirements. This is being implemented through functional (business) area groups. The groups include Services' and Defense Agencies' policy experts, subject matter specialists, functional operation specialists, and information systems specialists. These groups will develop concepts for improving business practices that may result in increased management efficiencies. They will identify and develop standard functional requirements and data formats for their areas, using a disciplined methodology to produce specifications for a single standard information system to support their functional areas DoD-wide. Their product will be a set of standard functional requirements that will be used in developing a standard information system that supports their respective business areas. The underlying premise of this effort is that information systems must be based on overall DoD-wide requirements rather than on individual Services' or Agencies' needs. From this perspective, their efforts represent a major change in DoD information systems planning processes.

Given the Department's high level of commitment and well-developed business plan, our expectations for achieving positive results from this initiative continue to be high.

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SENATE		SENATE		SENATE	
HEARING DATE Feb. 20, 1990		TRANSCRIPT PAGE NO.	LINE NO.	INSERT NO. 25	

Corporate Information Management

Question: Projected savings by the Army and the Navy over the five year period are almost twice the amounts projected by the Air Force. Why is the Air Force share of the savings so much less than the other services?

Answer: Projected savings by the Military Departments over the five year period are as follows:

Service	Savings (\$M)
Army	1,218.0
Navy	1,217.9
Air Force	894.0
Total for Military Departments	3,329.9

Projected savings are based on cost avoidances in information systems supporting the initial functional areas covered by the Corporate Information Management groups. The Department plans to suspend new systems development, modernization, or redesign of existing systems for the functional areas unless the actions are consistent with the Corporate Information Management standardization objectives.

The Air Force information technology budget submission includes several high-priority command and control programs. Command and control programs are outside the initial scope of the Corporate Information Management functional groups, so their costs are excluded from projected Corporate Information Management savings.